



NO.050

GOVERNMENT ANNOUNCES POLICY PROPOSALS ON AUDIT REGULATION AND CORPORATE DISCLOSURE

We release today a comprehensive set of policy proposals on audit regulation and the wider corporate disclosure framework. The paper, Corporate disclosure: strengthening the financial reporting framework, is the next chapter in the Government's Corporate Law Economic Program and will be known as CLERP 9.

The paper proposes a fundamental reshaping of the financial reporting framework. It builds on existing institutions and clarifies responsibilities to focus on the quality of financial reporting.

Under the proposals the Government will, among other things:

- Expand the role of the Financial Reporting Council to include public oversight of audit independence and audit standard setting in Australia. Auditing standards will also have the force of law on the same basis as accounting standards issued by the Australian Accounting Standards Board.
- Make audit committees mandatory for Australia's top 500 listed companies.
- Make audit partner rotation compulsory after 5 years.
- Amend the law to require disclosure in annual reports of fees for all categories of all non-audit services provided by an audit firm.
- Amend the law to require audit committees to certify that receipt of certain non-audit services did not compromise audit independence.
- Amend the law to increase the maximum civil penalty for contraventions of continuous disclosure provisions from \$200,000 to \$1 million.
- Amend the law to give the Australian Securities and Investments Commission the power to impose financial penalties and issue infringement notices in relation to contraventions of the continuous disclosure regime.
- Amend the law to provide penalties for retaliation against a company employee who reports to ASIC a suspected breach of the law in good faith and on reasonable grounds.
- Reform areas of auditor liability by allowing auditors to incorporate and seek agreement of the States to introduce proportionate liability.
- Revise civil and criminal penalties applying to financial reporting offences to ensure consistency and adequacy.
- Establish a Shareholders and Investors Advisory Council to provide advice on disclosure reforms to ensure they meet the needs of retail investors.
- Encourage shorter, more comprehensible notices of meetings and facilitate improved shareholder participation by electronic means.

The paper incorporates the Government's response to the Ramsay report on auditor independence. A full list of the [policy proposals in the paper is attached](#).

The 41 proposals in the paper will ensure that Australia enhances its effective disclosure framework that helps define world's best practice and provides the structures and incentives for a fully informed market.

They build on earlier initiatives under the Government's Corporate Law Economic Program which aims at ensuring our corporate regulatory structure remains robust, modern and flexible without burdening business with unnecessary regulation.

Australia's corporate governance framework has traditionally relied on a mix of regulation, co-regulation and encouragement of industry best practice. The balanced approach adopted in the paper released today

will result in better disclosure outcomes, punish corporate misbehaviour where it occurs, but not hamper innovation and wealth creation.

The Government will continue to consult with business and the community so that these reforms are effective and achieve quality outcomes for shareholders and investors. Consultation will close on 22 November 2002. We will then release exposure draft legislation for comment, with legislation expected to be introduced early in 2003.

Copies of the paper are available from the Treasury website at: <http://www.treasury.gov.au>

CANBERRA
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Submissions are due by 22 November 2002. As submissions may be made public, any confidential material should be marked accordingly.

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